



Bill Draft 2019-RBxfz-12: IRC Update.

2019-2020 General Assembly

Committee: Revenue Laws Study Committee
Introduced by:
Analysis of: 2019-RBxfz-12

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OVERVIEW: *Bill Draft 2019-RBxfz-12 would update the State's reference to the Internal Revenue Code from January 1, 2019, to January 1, 2020. The primary change for State income tax purposes would be a lower threshold amount for the medical expense deduction for the 2019 and 2020 taxable years.*

CURRENT LAW: North Carolina's tax law tracks many provisions of the federal Internal Revenue Code by reference to the Code. Article V, Section 2(1) of the North Carolina Constitution does not allow the General Assembly to delegate its taxing power. Therefore, the General Assembly must determine each year whether to update its reference to the Code.

North Carolina decoupled from many of the federal income tax deductions and credits when it reformed its tax laws in 2013. One of the federal deductions the State continues to piggy-back is the medical expense deduction that allows a taxpayer to deduct unreimbursed medical expenses for the year that exceed 10% of the taxpayer's adjusted gross income. In December, Congress changed the threshold amount to 7.5% for taxable years 2019 and 2020. However, under our Code reference date, the threshold amount for State tax purposes continues to be 10%.

BILL ANALYSIS: *Bill Draft 2019-RBxfz-12* would update North Carolina's Code reference from January 1, 2019, to January 1, 2020, thereby reducing the threshold amount for the medical expense deduction from 10% to 7.5% for the 2019 and 2020 tax years. The federal legislation also extended three provisions from which North Carolina has historically decoupled. The bill draft would decouple from these three provisions: income exclusion for forgiveness of debt on primary residence; mortgage insurance deductible as mortgage interest; and deduction for tuition and expense.

EFFECTIVE DATE: This act is effective when it becomes law.

BACKGROUND: On December 20, 2019, Congress enacted, and the President signed into law, H.R. 1865. Public Law 116-94 incorporated the *Taxpayer Certainty and Disaster Tax Relief Act of 2019*. The Act extended certain individual and business-related tax provisions. One of the "extenders" is a reduction in the medical expense deduction threshold amount for the 2019 tax year from 10% to 7.5%. The threshold amount increases to 10% for the 2021 taxable year.

Public Law 116-94 also incorporated the *Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act)*. The SECURE Act makes several changes related to tax-advantaged retirement accounts. One of the changes pushes back the age at which a retirement plan participant must take required minimum distributions from 70 ½ to 72, and another requires most non-spouses inheriting IRAs to take distributions that end up emptying the account in 10 years.

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